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¶1. (U) Summary. This is Volume 9, issue 23 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- South Africa's Reserves Rise
- No Tax Money to Bail Out Firms
- Minister Confident South Africa Will Weather Recession
- Indian Auto Manufacturer to Begin Production in South Africa
- ICASA Criticized for Delays in Spectrum Allocation
- State Support Triggers Eskom Outlook Revision by Fitch
- Denying Eskom Tariff Hikes Could Put Utility at Risk - Minister Hogan
- AngloGold Ashanti Forms Alliance Focused on Middle East/ North Africa
- South Africa's Mercury in Water Not the World's Worst

End Summary.

South Africa's Reserves Rise

¶2. (U) South Africa's gross gold and foreign reserves rose to $35.84 billion in May, an increase of $1.79 billion. The hefty gains sparked speculation that the South African Reserve Bank (SARB) may have stepped up the pace of its purchases of foreign currency after SARB Governor Tito Mboweni warned that the rand's strength may be "unwelcome" for the shrinking economy. Proceeds from the country's recent $1.5 billion bond issue, along with the revaluation effects of a stronger rand and gold price were the likelier buoy of the reserves. The gold price increased by 10.4% in May and boosted the value of gold reserves by $366 million, while the rand has appreciated by 19% against the dollar and 15% against a trade-weighted basket of currencies so far this year. Analysts expect reserves to come under pressure over the next few months, as global market volatility restrains the SARB's pace of foreign exchange accumulation. (Business Day, July 8, 2009)

No Tax Money to Bail Out Firms

¶3. (U) President Jacob Zuma said South Africa's stable macro-economic environment is not going to change, and the government had no intention of using taxpayer money for general company bailouts. "As we indicated, we are working with development finance institutions such as the Industrial Development Corporation to identify such companies and, where appropriate, mobilize assistance," Zuma said. He emphasized the importance of ensuring that the government remains focused on its longer-term socio-economic objectives. Zuma also repeated the government's intention to create about 500,000 work opportunities this year, as part of its goal of creating about 4 million such opportunities by the end of his five-year term. "Let me emphasize that these measures are not a substitute for the permanent jobs that must be created and sustained in the economy," Zuma said. (Fin24, June 9, 2009)

Minister Confident South Africa
Will Weather Recession

¶4. (U) Trade and Industry Minister Rob Davies presented an upbeat scenario of South Africa's economic future to world leaders gathered at the World Economic Forum in Cape Town. Davies expressed confidence in the robustness of the domestic economy, but he cautioned that the domestic response to the global economic crisis could not be "one-size-fits-all." The South African government
Qcould not be "one-size-fits-all." The South African government
believed that trade policy should be subordinate to industrial policy, he reiterated, and the country could not afford to lose the industrial capacity it had gained so far. South Africa would therefore set tariffs on a case-by-case basis, and could even raise some tariffs. Davies argued that the developed world's bailout packages were linked to messages about "buying local," which was protectionist. South Africa could not compete with such measures,

he added, and the government would seriously consider reversing some of its tariff cuts to protect the gains made by the country's industrial policy. (Business Day and Engineering News, June 11, 2009)

Indian Auto Manufacturer to Begin
Production in South Africa

¶5. (U) Mahindra South Africa, a subsidiary of Indian vehicle manufacturer Mahindra & Mahindra, announced that it would soon start local assembly in South Africa. The company sells the Bolero, Scorpio, and Xylo models in South Africa and plans to begin selling its Thar off-road vehicle in late 2009. Mahindra officials noted that local assembly in South Africa would serve an expanded range of key markets in Central, Western, Eastern, and Southern Africa. Another benefit for local assembly in South Africa would include access to the U.S. market under the African Growth and Opportunity Act. Mahindra South Africa sold between 1,500-2,000 vehicles into the local market last year, and sales are expected to remain around the same number this year. Mahindra sales reached roughly 5,000 units per year in South Africa before the recession. (Engineering News, June 8, 2009)

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ICASA Criticized for Delays in Spectrum Allocation
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¶6. (U) Companies in the ICT sector expressed frustration at the delays by the industry regulator, the Independent Communications Authority of South Africa (ICASA), in dividing up the spectrum needed to provide wireless broadband services, such as WiMax. U.S. micro-chip processor developer Intel has joined the chorus of complaints and has called on ICASA to auction the spectrum as soon as possible. Intel Sub-Saharan WiMax Development Manager Gavin Coetzer said, "ICASA is constantly explaining to the market that it is protecting consumers, but by delaying, the regulator is harming consumers by limiting choice and not allowing new competition to

develop." Internet service providers, which until recently were not allowed to build their own networks, regard WiMax as a way to compete against Telkom and established mobile operators in providing broadband. Naspers' MWeb and Dimension Data's Internet Solutions are keen to build networks using WiMax. Coetzer explained that the sector has been waiting for almost three years for this simple process to be completed. Intel is a key backer of WiMax, and hopes WiMax chipsets will become standard issue in notebook computers in the next few years. ICASA has the task of deciding who should get access to the scarce spectrum. Assuming the spectrum is divided into chunks of 30 Megahertz (MHz), only three operators can be licensed in the valuable 2.5 Gigahertz (GHz) band. ICASA must decide who should get that spectrum, and whether incumbent operators should be excluded from the process in favor of new players. The best approach is to have a fixed-price auction and those who do not have sufficient capital to build a national network would automatically be excluded, according to Coetzer. Coetzer emphasized that companies receiving the spectrum must "have resources to roll Qthat companies receiving the spectrum must "have resources to roll out networks and offer consumers choice." (Financial Mail, June 5, 2009)

State Support Triggers Eskom Outlook
Revision by Fitch

¶7. (U) Fitch Ratings revised Eskom's national long-term rating from "negative" to "stable." Fitch's decision to revise Eskom's rating hinged on signs that the government would support any funding gaps that may occur. Eskom was forecasting a funding shortfall of R52 billion ($6.4 billion) for its expansion program, but it was working on an integrated funding model, which it hoped would enable it to source adequate finance from equity, debt and tariff sources. Fitch alluded to these "signs of enhanced coordination," including with government and the National Energy Regulator of South Africa, in its statement. (Engineering News, June 11, 2009)

Denying Eskom Tariff Hikes Could Put
Utility at Risk - Minister Hogan

¶8. (U) Denying Eskom higher tariffs could put the power supply to the whole nation at risk, Public Enterprises Minister Barbara Hogan warned Parliament's portfolio committee on public enterprises. "Eskom is essential to all of us. If we lose Eskom we might as well kiss the country good-bye," Hogan added. "Can we afford to have electricity so cheap that the electricity provider loses its economic viability? In South Africa we have been very spoilt. The age of cheap electricity is over." Hogan was responding to warnings that granting Eskom the 34% tariff hike it is seeking would put untenable pressure on the poor. Public Enterprises Director General Portia Molefe countered that if the tariff hike application were rejected, Eskom's infrastructure investment program would be at risk. The comments came as Eskom Chief Executive Jacob Maroga was defending the application at a hearing of the National Electricity Regulator of South Africa in Pretoria, where Eskom was accused of having failed to justify the increase. The company wants to complete a R343 billion ($50 billion) capital expansion program by March 2013, of which R87 billion ($10.8 billion) would be spent this financial year. Molefe said it would be irresponsible of Eskom to continue to invest in new infrastructure if it did not secure the price hike to fund the program. Molefe said low-income households have been assured that they will get a tariff that is linked to the inflation rate, leaving more affluent South Africans to shoulder most of the burden of higher prices. South Africa has the second lowest electricity prices in the world and Eskom is expected to ask for further tariff increases for the next three years as it pursues its expansion goals. (Business Day, Engineering News, June 9, 2009)

AngloGold Ashanti Forms Alliance

Focused on Middle East/ North Africa

¶9. (U) South African gold major AngloGold Ashanti has formed a strategic alliance with United Arab Emirates gold exploration company Thani Dubai Mining to explore, develop, and operate mines across the Middle East and in parts of North Africa. Each company would own a 50% stake in the alliance, which would pursue gold, precious metals, and base-metals projects. The strategic importance of the Middle East and North Africa region lies in the fact that these regions have not previously been widely explored for gold, precious metals, or base-metals, and had the potential for development, noted AngloGold Ashanti spokesperson Julia Schoeman. The majority of AngloGold's current operations are in South Africa, with a few other projects in Africa and elsewhere. It currently has no operations in North Africa or the Middle East. Project acquisitions and exploration programs would be equally funded by the two partners up to and including the completion of the project prefeasibility study. AngloGold would then develop, manage, and operate any subsequent mining operations. (Mining Weekly, June 11, 2009)

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South Africa's Mercury in Water Not the World's Worst
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¶10. (U) The Council for Scientific and Industrial Research (CSIR) plans to release a comprehensive national study of mercury in South Africa's water sources. CSIR lead researcher Vernon Somerset explained, "The project is an attempt to understand the conditions of South Africa's water and atmosphere in terms of mercury released into the environment, how it builds up into aquatic food chains and how it impacts on water resources and human health." The report may allay fears that South Africa is one of the world's worst emitters of trace mercury. The CSIR study shows the levels of the trace metal being within the World Health Organization's acceptable limits, according to Somerset. Water Research Commission researcher Stanly Liphadzi noted that CSIR's research results would assist in identifying mercury emissions hotspots where intervention needs to be directed. (Business Day, June 3, 2009)